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SENIOR'S THEORY OF MONOPOLY.

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We are beginning to recognize more adequately than heretofore the ability of Senior as an economist. When for the first time we examine Senior's economic writings critically, we are astonished to find the extent to which recent developments of economic theory may be traced back to germs in this early economist. The theory of value affords an illustration, inasmuch as Senior makes value depend primarily upon the limitation of utility. The general distinction which Senior makes and emphasizes between subjective and objective elements in economics, affords a further illustration. This comes out, for example, in Senior's discrimination between wages and the sacrifices for which wages are paid.¹

Perhaps in nothing is Senior more remarkable than in his discussion of monopoly, for in this discussion he gives evidence of an unusually keen analytical mind. Writing in the thirties, when monopoly was, comparatively speaking, so insignificant, he yet saw the prevalence of monopoly in the industrial field more clearly than it has been discerned by writers of our own day, when monopoly has indefinitely greater significance than it had sixty years ago.

And yet, at the same time, in his discussion of monopoly as elsewhere, Senior fails to carry out and elaborate his ideas as fully as could be expected from so powerful a mind. Naturally, any inquiry into Senior's theory of monopoly will first give attention to Senior's idea of monopoly. To begin with, he distinguishes

¹Political Economy, p. 129, where Senior notices that "it is the privilege of talent to work not only better, but more easily."

sharply between production under circumstances of equal competition and under circumstances of unequal competition, and then proceeds to explain what he means by monopoly and by monopolies, in the following words :

“ Now it is clear that the production in which no appropriated natural agent has concurred, is the only production which has been made under circumstances of perfectly equal competition. And how few are the commodities of which the production has in no stage been assisted by peculiar advantages of soil, or situation, or by extraordinary talent of body or mind, or by processes generally unknown, or protected by law from imitation. Where the assistance of these agents, to which we have given the general name of natural agents, has been obtained, the result is more valuable than the result of equal labor and abstinence unassisted by similar aids. A commodity thus produced is called the subject of a *monopoly* ; and the person who has appropriated such a natural agent, a *monopolist* ? ” ¹

Having given this definition of monopoly, Senior proceeds to divide monopolies into four kinds. The first class is of those “ where the monopolist has not the exclusive power of producing, but only certain exclusive facilities as a producer, and can increase, with undiminished, or even increased facility, the amount of his produce. ” ²

Senior gives as an illustration of this kind of monopoly the production of yarn by Arkwright, who, by means of his patent machinery, was able to produce yarn far more cheaply than could any of his competitors. Senior says, indeed, that “ the cost to Ark-

¹ Political Economy, p. 103.

² *Ibid.*

wright was not one-fifth of what it would have been to his customers" had they undertaken to produce yarn for themselves. Arkwright, however, found it to his advantage, so we are told, not to produce a sufficient quantity to supply the entire market, but to produce a far less quantity, giving competitors opportunities to produce at a relative disadvantage while he himself pocketed enormous profits.

A second kind of monopolies, according to Senior, is that "which exists where price is checked neither by the hopes nor by the fears of the producer, where no competition is dreaded, and no increased supply can be effected."¹ He gives as an illustration the owner of the Constantia farm, who is able to produce a limited quantity of Constantia wine, a wine, however, which can be produced by no one else, and the supply of which can not be increased even by the owner without an impairment of its quality.

A third class of monopolies "comprises those cases in which the monopolist is the only producer, but, by the application of additional labor and abstinence, can indefinitely increase his production."² This is a simple case, illustration of which is afforded by copyrighted books.

"The fourth and last class of monopolies" says Senior, "exists where production must be assisted by natural agents, limited in number, and varying in power, and repaying with less and less relative assistance every increase in the amount of the labor and abstinence bestowed on them."³ We have here to do with what Senior calls the "great monopoly of

¹ Political Economy, p. 104.

² *Ibid.*

³ *Ibid.*

land." Elsewhere he speaks of these monopolies as "qualified monopolies". The wide prevalence of monopoly is brought out still more clearly by Senior in his discussion of the effects of cost of production on price, where he sums up what he has to say as follows :¹

. "We have seen that production may take place under five different circumstances.

1. Absence of monopoly ; all persons being capable of producing with equal advantage.

2. A monopoly under which the monopolist has not the exclusive power of producing, but exclusive facilities as a producer, which may be employed indefinitely with equal or increasing advantage.

3. A monopoly under which the monopolist is the only producer, and cannot increase the amount of his produce.

4. A monopoly under which the monopolist is the only producer, and can increase indefinitely, with equal or increasing advantage, the amount of his produce.

5. A monopoly under which the monopolist is not the only producer, but has peculiar facilities which diminish and ultimately disappear as he increases the amount of his produce."

It is only one case out of the five in which we have an absence of monopoly. Senior repeatedly comes back to the fact that monopoly is found everywhere in the industrial field. He says, for example :² "It is difficult, however, to point out an article, however simple, that can be exposed to sale without the concurrence, direct or indirect, of many hundred, or, more frequently, of many thousand different producers ; almost every one of

¹ Political Economy, p. III.

² *Ibid.*, p. 112.

whom will be found to have been aided by some monopolized agent.”¹ Two pages further on he expresses himself still more strongly, as follows :

“When we speak, therefore, of a class of commodities as produced under circumstances of equal competition, or as the result of labor and abstinence unassisted by any other appropriated agent, and consider their price as equal to the sum of the wages and profits that must be paid for their production, we do not mean to state that any such commodities exist, but that, if they did exist, such would be the laws by which their price would be regulated.”² Illustrations of this view entertained by Senior can be very easily multiplied.

It is apparent that Senior has grouped together different economic categories under the term “monopoly.” A little reflection, however, coupled with a careful reading of his discussion, reveals the fact that there is only one concept in which these various categories find unity, and that concept is “surplus value.” Senior’s discussion of monopoly has as a starting point cost of production. By cost of production he means “the sum of the labor and abstinence necessary to production.” We have, according to Senior, what we may call *value of remuneration*, when commodities and services are produced under circumstances of equal competition. In other words, labor and abstinence are remunerated, and no more than remunerated, when all producers have equal advantages. Under such circumstances, the price of commodities “represents the aggregate amount of the labor and abstinence necessary to continue their production.” It happens, however, as we see, that very seldom is production carried on under circumstances of equal

¹ Political Economy, p. 112.

² *Ibid.*, p. 114.

competition. Wherever producers enjoy unequal advantages, we have surplus value; and wherever we have surplus value, we have what Senior designates as "monopoly." Senior has another name for surplus value in the term rent, which, according to his nomenclature, covers all the gains accruing to monopoly. In other words, monopoly gives rise to surplus value, or to what Senior calls "rent", which is described by him in the following quotation: "But a considerable part of the produce of every country is the recompense of no sacrifice whatever; is received by those who neither labor nor put by, but merely hold out their hands to accept the offerings of the rest of the community." "if wages and profit are to be considered as the rewards of peculiar sacrifices, the former the remuneration for labor, and the latter for abstinence from immediate enjoyment, it is clear that under the term 'rent' must be included all that is obtained without any sacrifice; or, which is the same thing, beyond the remuneration for that sacrifice; all that nature or fortune bestows either without any exertion on the part of the recipient, or in addition to the average remuneration for the exercise of industry or the employment of capital."¹

Senior extends the term rent or monopoly gains in a most interesting manner, suggesting again quite recent discussions. The Germans, for example, have been discussing for some time the "gains of conjuncture" (Conjuncturgewinn;) but this subject received considerable attention at the hands of Senior over sixty years ago. After having stated that extraordinary gains constituting a surplus over and above average wages may with propriety be termed "rent", he adds:

"And for the same reason we term *rent* what might,

¹ *Ibid.*, pp. 89 and 91-2.

with equal correctness, be termed *fortuitous profit*.¹ We mean the surplus advantages which are sometimes derived from the employment of capital after making full compensation for all the risk that has been encountered, and all the sacrifices which have been made, by the capitalist. Such are the *fortuitous*¹ profits of the holders of warlike stores on the breaking out of unexpected hostilities; or of the holders of black cloth on the sudden death of one of the Royal family. Such would be the additional revenue of an Anglesea miner, if, instead of copper, he should come on an equally fertile vein of silver. The silver would, without doubt, be obtained by means of labor and abstinence; but *they* would have been repaid by an equal amount of copper. The extra value of the silver would be the gift of nature, and therefore rent."²

As has just been suggested, Senior likewise extends the term rent to include "the extraordinary remuneration of the laborer, which is assisted by extraordinary talents."³ Senior brings out very clearly in illustration the significance of rent in the remuneration of those whose present services yield them a large income. He takes the case of a lawyer or physician having an income of £4000 a year. Of this amount he regards forty pounds as ample payment for all the labor that either of them undergoes. Of the remainder he regards £3000 as rent and £960 as profits on "their respective capitals; capitals partly consisting of knowledge, and of moral and intellectual habits acquired by much previous expense and labor, and partly of connection and

¹ The italics are here those of the present writer.

² Political Economy, p. 129.

³ *Ibid.*, p. 130.

reputation acquired during years of probation while their fees were inadequate to their support.”¹

Senior also extends still further his concept of rent or monopoly gains in an interesting manner when he discusses the distinction which inheritance creates between profits and rent, transferring income enjoyed by an individual from the former category—namely, profits, to the latter—namely, rent. When I make improvements in land or build a dock, my return, so far as it is not wages, is profits; but when the income which I have enjoyed passes over to my heir, it is to be designated as rent. This income is something which he receives without previous toil; it is something over and above his earnings, and, accordingly, is to him unearned wealth. It is, therefore, rent. This is a novel extension of the idea of surplus value. Senior describes his idea in this particular in the following language :

“We may be asked, then, whether the improvements which form the greater part of the value of the soil of every well-cultivated district are all, and for ever, to be termed capital? Whether the payments received from his tenants by the present owner of a Lincolnshire estate, reclaimed by the Romans from the sea, are to be termed, not rent but profit on the capital which was expended fifteen centuries ago? The answer is that, for all useful purposes, the distinction of profit from rent ceases as soon as the capital, from which a given revenue arises, has become, whether by gift or by inheritance, the property of a person to whose abstinence and exertions it did not owe its creation. The revenue arising from a dock, or a wharf, or a canal, is profit in the hands of the *original constructor*. It is the reward of *his* abstinence in having employed capital for the purposes of production in-

¹ Political Economy, p. 134.

stead of for those of enjoyment. But in the hands of his heir it has all the attributes of rent. It is to him the gift of fortune, not the result of a sacrifice. It may be said, indeed, that such a revenue is the reward for the owner's abstinence in not selling the dock or the canal and spending its price in enjoyment. But the same remark applies to every species of transferable property. Every estate may be sold, and the purchase money wasted. If the last basis of classification were adopted, the greater part of what every Political Economist has termed rent must be called profit."¹

Senior did not work out as he might have done the significance of his law of value in its relation to monopoly, making value depend, as he did, chiefly upon limitation of supply. Another thing which he did not work out, but which suggests itself very naturally, is the significance, in a discussion of monopoly, of the law of increasing returns in manufactures. Again and again, Senior emphasizes the law of increasing returns in manufactures, whether we have regard to manufactures as a whole or to the business of one single manufacture; and as the law of increasing returns, according to Senior, here operates without limit, it suggests itself to a modern student that we have a strong monopoly force in manufactures which must ultimately result in the establishment of monopoly, in a very strict sense of the term, in every line of manufacture.²

If it be found that monopoly exists everywhere, it is but natural to inquire what is the proportional amount of the income of society which accrues to monopoly. This is an inquiry which Senior has not overlooked, although even from his own point of view it cannot be

¹ Political Economy, p. 129.

² *Ibid.*, pp. 104-6.

said that he has been very successful in his discussion. Concerning the gains of monopoly or, in other words, rent, he expressed himself in one place as follows :

“ As rent arises from the agency not of man, but of nature, its amount does not depend on the will or the exertions of its recipient. The owner of the land, or of the natural agent, whatever it be, for the use of which persons are willing to pay rent, receives the sum which their mutual competition forces them to give. As it is all pure gain, he accepts the largest sum that is offered, however trifling its amount. Nor, on the other hand, does the amount of rent depend on the will or the exertions of those who pay it. Whatever be the value of the services of an appropriated natural agent, that value must be paid by the person who wishes to use them, as both parties to the bargain are aware that if it is not hired by one applicant it will be by another. The amount, therefore, is subject to no general rule ; it has neither a minimum nor a maximum. It depends on the degree in which nature has endowed certain instruments with peculiar productive powers, and the number of those instruments compared with the number and wealth of the persons able and willing to hire them. There is, probably, now land near New York selling for £1000 an acre, which a century ago could have been obtained for a dollar.”¹

One thing which should be especially noticed in the foregoing quotation is the dependence of the amount of rent upon the resources of those who pay rent or upon what I have termed in my own formulation of the law of monopoly price, “ the general average of economic well-being.” Here again, however, Senior entirely failed to discover the significance of the suggestion which he threw out.

¹ Political Economy, p. 139.

Surely it suggests itself from all this that the amount of rent is very great, and one giving attention solely to Senior's discussion of monopoly would be inclined to say that according to Senior monopoly must absorb a goodly proportion of all wealth produced. When Senior comes to discuss profits, however, we find him turning sharply away from the conclusions naturally suggested by his discussion of monopoly. He states that comparatively few are dependent exclusively upon wages, probably not one-fourth of the community, and that the rent receivers, using that word in its largest sense, are still fewer; whereas, "the bulk of the national revenue is profit; and of that profit the portion which is mere interest on material capital probably does not amount to one-third. The rest is the result of personal capital or, in other words, of education."¹

It is impossible to reconcile this statement with his general treatment of monopoly, nor am I aware that he himself attempted any such reconciliation. At this point an optimistic tendency in his nature seems to have asserted itself strongly. But Senior could be severe enough in denouncing monopoly. Speaking of a possible restriction by government of the use of coal to that mined by a single colliery, he says: "The possessor of that colliery would enjoy a princely revenue. But the gain from such a monopoly is not strictly rent; it is oppression and robbery."² He also again and again denounced as an iniquity the monopoly due to a protective tariff.³

¹ Political Economy, p. 134.

² *Ibid.*, p. 182.

³ See Three Lectures on the Transmission of the Precious Metals from Country to Country and the Mercantile Theory of Wealth. London, 1828. P. 52. Also, Essay on National Property. London, 1835. Pp. 3-4.

Senior had in some degree the disposition of a social reformer. As reported by Thornton, he himself said: "When I was about five and twenty, I determined that I would reform the condition of the poor in England."¹ In various passages in his *Political Economy* vigorous denunciation of special privilege shows us that the fire still burns at the age of five and forty! The large economic significance attributed to education by Senior places him in company with a strong body of humanitarians, while his sharp distinction between gains of monopoly and individually earned incomes brings to mind the doctrines of socialism. In fact, Senior's entire treatment of monopoly suggests to the modern mind many practical applications of his doctrines, and it is not unreasonable to believe that many of our after-day reform movements may be traced back to Senior's *Political Economy* as one of several sources.

But Senior himself did not make these practical applications. And why? One thought which occurs in answer to the question is this: Senior held that the practical application of economic truths does not fall within the scope of economic science. He is very pronounced on this point, thinking that, as many other considerations than purely economic ones enter into practical policy, the economist, as an economist, should be content with stating economic truth, and should let the consequences of this truth take care of themselves, or, to speak more accurately, that he should let others combine economic truth with other truths and thus secure a basis for practical policy. We might then, in this attitude of Senior, find an explanation of a lack of practical application of his principles. However,

¹ Thornton, *On Labor*. Preface.

Senior did not confine his writings to economic subjects, but covered a large field, including such avowedly practical subjects as poor-law reform and education. Moreover, he traveled extensively and conversed with distinguished men of many lands on subjects which interested him. We have thus more than a dozen volumes by him bearing such titles as "Correspondence and Conversations of Alexis de Tocqueville with Nassau William Senior," and "Conversations and Journals in Egypt and Malta." But these other works show the very slightest traces of his economic thought. Imagine one of our modern economists traveling extensively in foreign countries, conversing and corresponding with distinguished persons of our times and concealing altogether his economic views, neither shedding nor seeking economic light! The truth seems to be this: Senior was an able, logically trained man, who, when he was appointed to a professorship in economics and it thus naturally came in his way, temporarily gave himself to economics. Economic science, however, was never a chief end with him; it did not enter into his flesh and blood; it was to him rather a cloak, which he put on for convenience, and, when it had served his purpose, took off decently and laid aside. This explains also why he stopped short of the results which he might have reached, had economics been his dominant and controlling interest.

It has been suggested that he was indolent. I do not know what the foundation for this statement may be. It is certain that he relied on his logical powers, and not on careful study either of phenomena or of the writings of others.

On account of the limitations of time, I will not now undertake to criticize the wide use of the term monopoly

by Senior, nor to show you how strong has been the influence of Senior's discussion upon the evolution of the idea of monopoly in economic literature. Elsewhere I have attempted to define monopoly more narrowly, and to show what I conceive to be the unfortunate effects of the evolution of the idea of monopoly to which I have just referred.

Had a less able writer reached the same results which Senior has reached in his discussion of monopoly, we would, perhaps, be satisfied, saying that he had done as much as could be expected from one writer. With Senior, however, we do not feel satisfied, simply because it seems to us that so able a mind ought to have done more than he did. We feel that we cannot say of him, "he hath done what he could." Yet no one knows the obstacles with which another may have to contend, and we may charitably close this brief discussion with the statement that Senior has done a considerable amount of good work, which, it is now generally felt, has in the past failed to receive adequate appreciation.